



DEPARTMENT OF
FINANCE

EDMUND G. BROWN JR. - GOVERNOR

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December 18, 2012

Mr. Rene Mendez, City Manager
City of Gonzales
147 Fourth Street
Gonzales, CA 93926

Dear Mr. Mendez:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 8, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Gonzales Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 24, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 8, 2012. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on November 14, 2012.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of the specific item being disputed.

- Item No. 4 – City Agreement in the amount of \$1.2 million. Finance continues to deny the item at this time. Finance denied the item as HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the redevelopment agency (RDA) and the former RDA are not enforceable. This shall remain the case until and unless a Finding of Completion is issued by Finance and the oversight board makes a finding that the agreements were for legitimate redevelopment purposes pursuant to HSC section 34191.4 (b). The Agency contends the Loan Agreement between the City and the RDA is an enforceable obligation because it is directly related to refinancing the \$9,540,000 worth of bond debt originally issued by the RDA in 2006. Although the Loan Agreement is solely for the purpose of securing or repaying indebtedness obligations, the loan agreement was entered into in June 2011 – well after December 31, 2010 wherein written agreements between the city and the RDA would have been considered an enforceable obligation per HSC 34171 (d) (2). Finance has not issued a Finding of Completion to the Agency; therefore, the provisions of HSC section 34171 continue to apply. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable obligations. Therefore, the item is currently not an enforceable obligation.

- Item Nos. 7 and 8 – Professional Services contracts totaling \$650,000 were reclassified as administrative costs. Although this reclassification increased administrative costs to \$151,000, the administrative cost allowance has not been exceeded. Finance continues to reclassify the items as administrative costs. The Agency contends the items are enforceable obligations because they do not relate to the Agency’s administration and should not be counted as such. However, the items do not fall into any of the following categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b):
 - Any litigation expenses related to assets or obligations.
 - Settlements and judgments.
 - The costs of maintaining assets prior to disposition.
 - Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs.

Therefore, the items continue to be reclassified as administrative costs.

In addition, per Finance’s ROPS letter dated October 8, 2012, the following items not disputed by the Agency continue to be denied:

- Item No. 10 – Supplemental Educational Revenue Augmentation Fund (SERAF) Loan from Low and Moderate Income Housing Fund in the amount of \$597,734, no funding source identified. HSC section 34176 (e) (6) (B) specifies loan or deferral repayments to the low mod income housing fund shall not be made prior to the 2013-14 fiscal year. Since this item cannot be paid at this time, this item is not an enforceable obligation.
- Item No. 12 – Pass through payment true up, amount to be determined, no funding source identified. HSC section 34182 (c) (3) directs the county auditor-controller to prepare estimates of amounts of property tax to be allocated and distributed, and the amounts of pass through payments to be made, in the upcoming six-month period. Therefore, pass through payments are not eligible for RPRTTF funding.

The Agency’s maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$946,074 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 861,074
Less: Six-month total for item(s) denied or reclassified as administrative cost	
Item 4	40,000
Item 7*	12,000
Item 8*	14,000
Total approved RPTTF for enforceable obligations	\$ 795,074
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	151,000
Total RPTTF approved:	\$ 946,074

*Reclassified as administrative cost.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS III form the estimated obligations and actual payments associated with the January through June 2012 period. The amount of RPTTF approved in the above table will be adjusted by the county auditor-controller to account for differences between actual payments and past estimated obligations. Additionally, these estimates and accounts are subject to audit by the county auditor-controller and the State Controller.

The amount available from the RPTTF is the same as the property tax increment that was available prior to enactment of ABx1 26 and AB 1484. This amount is not and never was an unlimited funding source. Therefore, as a practical matter, the ability to fund the items on the ROPS with property tax is limited to the amount of funding available to the successor agency in the RPTTF.

Except for items disallowed as noted above, Finance is not objecting to the remaining items listed in your ROPS III. Obligations deemed not to be enforceable shall be removed from your ROPS. This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2013. Finance's determination is effective for this time period only and should not be conclusively relied upon for future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not questioned on this ROPS or a preceding ROPS.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Julie Aguero, Auditor-Controller Analyst II, Monterey County
California State Controller's Office